

# THE TAXPAYER

## Taxpayer Supplement

Canadian Federation of  
National and Provincial Taxpayers

*Federal Fiscal Fiasco — Morley Leonard Evans*

## The Government of Canada: Its Fiscal Record

*It is the highest impertinence and presumption, in Kings and Ministers, to pretend to watch over the economy of private people. They are always, and without exception, the greatest spendthrifts in society. - Adam Smith, 1776*

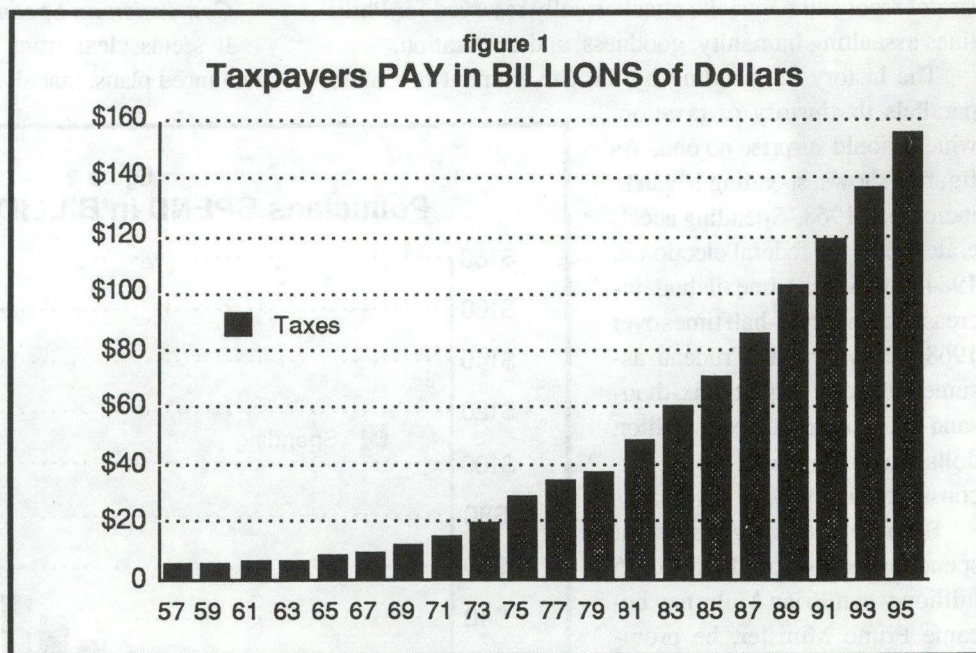
### Taxation

The amounts shown in figure 1 indicate that the Government of Canada taxed its people at a constant level, and a low level by today's standards, from 1957 to 1968. Taxation was even *lower* before that: through WW I, the Great Depression, and WW II. At the end of the 1967/68 fiscal year, taxes were \$10,637 million dollars, or \$514 per capita. With the election of Pierre Elliot Trudeau, in June 1968, Canada's federal government began to accelerate down the road it had already begun to travel to appropriate for itself a greater role in the lives of the Canadian people. By the end of the 1983/84 fiscal year (Brian Mulroney became the Prime Minister in September, 1984) Canadians paid \$64,216 million in taxes. The tax bill had become \$2,571 per capita, five times greater than it had been in 1968.

Although Brian Mulroney's Progressive Conservatives promised, before it was elected in 1984, to deal with the federal government's ballooning debt, reduce its expenditures, and keep taxes in line, the tax bill today is \$112,400 million—\$4,240 per capita.

That's 1.75 times more than when he took office and 8.25 times greater than in 1968. Based upon his record, Mr. Mulroney has failed to keep taxes in line, let alone reduce them.

If the federal government's projections are realized, it will raise taxes in 1995 of \$155,000,000,000. That's one-hundred-fifty-five-thousand million dollars, or \$5,542 dollars per capita, an increase of 14.57 times the amount of taxes



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200 - 1315 Scarth Street, Regina, Saskatchewan, S4R 2E7; phone (306) 352-7199 fax (306) 352-7203



paid in 1968. This will represent an increase in taxation from 1957 to 1995 of 27.8 times.

### ***Inflation***

A consideration of taxation cannot ignore inflation because inflation is a form of taxation, albeit an insidious one. Inflation permits the government to spend money it does not have by creating money out of thin air which is accepted as having the same value as existing money. The value of this new 'money' is reduced through the market process as prices are bid upward; it takes more units of money to buy the same things as before. Unfortunately the existing money also loses its value since it is indistinguishable from the new 'money'. Because inflation reduces the value of the entire money stock, a portion of everyone's money, whether it is in salaries, wages, interest, deposits, equities, bonds, or stashed

under a rock, is covertly transferred to the government.

So, as well as extraordinary increases in taxes since 1968, the Canadian people have also been subjected to a large-scale expropriation of their wealth by the Government of Canada through inflation.

### ***Conclusion on Taxation***

It seems clear enough from its actions, through four Prime Ministers, over more than twenty years, that the Government of Canada has no history of concern for the taxpayer. It is equally clear from the government's own projections for the next five years, that it intends to take even more from the taxpayer: the consequences be damned.

But, taxation is driven by spending. What has been the record of spending during this period?

What does the government plan to do to 1995?

## **Spending**

For many decades, government 'cut-backs' have been based on reductions in projected budget increases. Any reductions in projected increases in the budgets of either government departments or other tax-consumers are supposed to have "slashed spending to the bone." Or, "Just more evidence of government under-funding." Thus, the media reports government spending is being cut at the same time that government spending is increasing. People pleading for restraint receive the vitriolic attack usually reserved for Philistines assaulting humanity, goodness, and civilization.

The history of spending by the Government of Canada parallels the history of taxation, which should surprise no one. As figure 2 shows, spending began to increase in 1968. Spending accelerated until the federal election in 1984, by which time it had increased eight-and-a-half times over 1968, the year Mr. Trudeau assumed office. Ninety-six-thousand-six-hundred-fifteen million dollars were devoured by the tax-consumers in 1984.

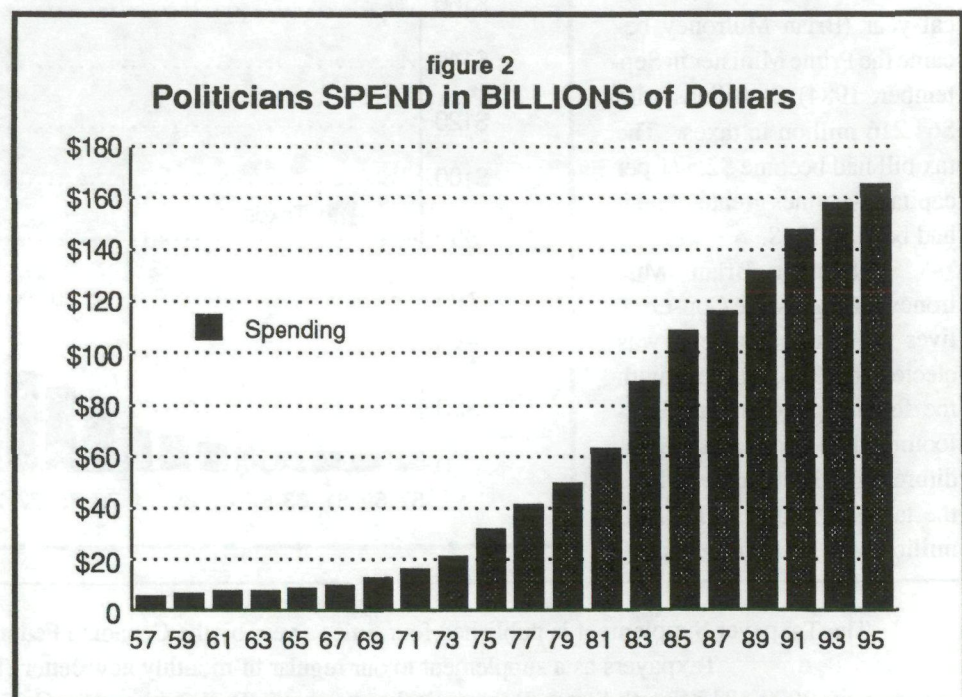
Because federal government spending had increased to \$96,615 million when Brian Mulroney became Prime Minister, he promised to do something about it. He did. After six years of his solutions, federal spending is now \$142,900 million: a 1.5 times increase.

The Canadian taxpayers have been told by the Minister of Finance, Mr. Michael Wilson, that he plans to increase spending in 1995 by \$68,390 million over today. (Taxpayers all wish they could stretch a buck like that; saving money all-the-while!)

Annual government spending through the period 1957 to 1995 will have increased from \$5,257 million to \$165,000 million, an astronomical increase of 31.4 times.

### ***Conclusion on Spending***

It seems clear from the record, and the government's announced plans, that all the factors required to ensure ever-





increasing federal government spending are firmly entrenched in Ottawa. It seems likely that—short of a momentous change—the taxpayers can expect nothing other than to be presented each year with ever-greater bills to pay.

## Debt

For a while, the Government of Canada nearly managed to live within the extravagant means provided by the taxpayers. Figure 3 shows that although the federal debt has increased every year but three in the thirty-nine years in the period we are considering (1957 to 1995), serious borrowing did not get under way until 1973. Since then, a mountain of debt has accumulated which today exceeds \$351,600 million, or \$13,262 per capita.

The government simply signs the taxpayers' name to the debts it contracts: which is why people prefer to loan money to the government over lending it to others. The federal net debt, the accumulated borrowings of the federal government, must be repaid out of taxes, as the government's contracts come due. The deficit, which everyone makes much of each time it is announced, is simply the amount of additional funds the government must borrow each year to pay its bills.

### Effect of Government Borrowing

Borrowing by the Government of Canada has the effect of driving up interest rates, making it more expensive for private borrowers to finance their own activities, and crowding private borrowers entirely out of the debt markets, since there is always only a limited amount of money to be lent. This shortage of debt financing capacity creates a general restriction on production in the country.

### Disputed Projection

Although the government says it will stop borrowing more money by 1995, its ability to do so is hotly disputed by most financial analysts. They say that the government must continue to borrow money just to service the interest cost on the debt. Because the interest cost has to be financed by more borrowed money, the cost to borrow will increase as the likelihood the lenders will be repaid dimin-

ishes with each new debt issue and as the cost of increased demand for loanable funds drives up the price (interest rate).

### Conclusion on Borrowing

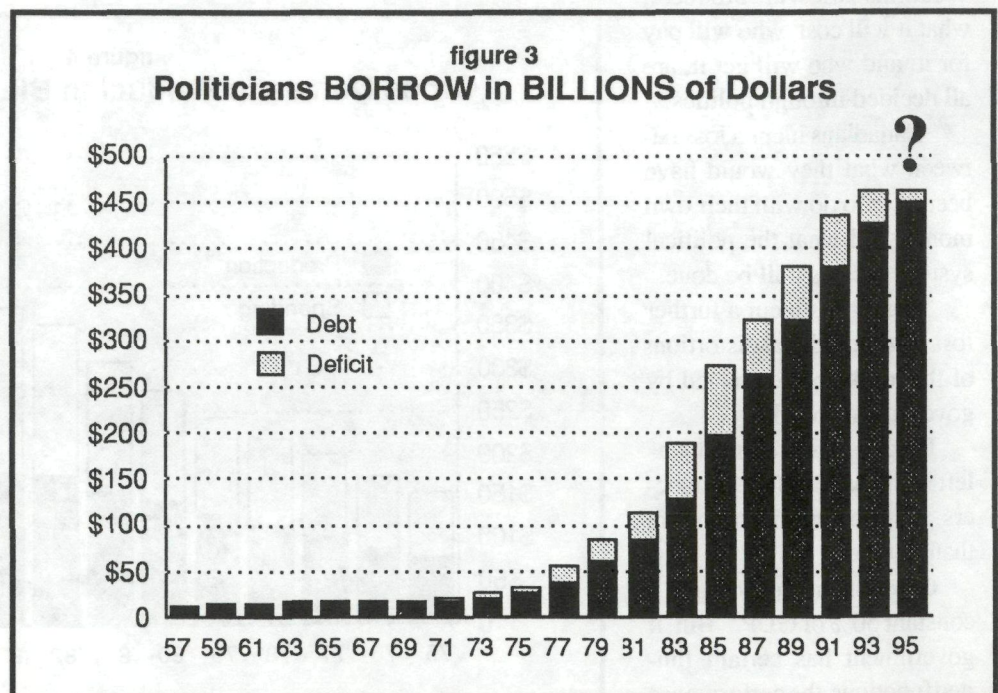
As with taxation and with spending, the debt incurred by the Government of Canada has been increasing geometrically. Even if the government is able to avoid borrowing more money, it will have left the Canadian taxpayers with a mountain of debt to repay—money borrowed by the government, plus interest, is simply deferred taxation.

The Canadian taxpayers are perfectly justified in concluding that, even if no more money is borrowed, the government has acted in a most irresponsible way.

## Conclusion

The only important factor for citizens to evaluate when their government introduces a plan to set the nation's financial affairs right is what the government proposes to do to bring its own affairs under control.

The Government of Canada doesn't have enough money.





Was this situation created because the tax system has been inadequate? Was it created because the taxpayers haven't shelled out enough? Or was it created because the government exercises very little discretion as to how it spends our money?

It is necessary to examine the record and plans of the Government of Canada to evaluate its claim that it needs a brand-new type of tax to solve the country's problems. The Government of Canada wants a nice new general sales tax (GST) that it has called the "Goods and Services Tax" (GST). It has advised the Canadian taxpayers to expect the GST to take force on January 1, 1991.

Well, what do we—the taxpayers—think of that?

Through its past actions and through its announced intentions for the future, the Government of Canada has indicated that it is not interested in either spending less or in reducing taxes. In fact the evidence is quite explicit that the federal government has every intention of continuing to increase both expenditures and taxes at a geometric rate. The only concession

the federal government has made to the protests of the taxpayers has been to promise to stop borrowing more money in 1995. What the federal government will (or can) actually do remains to be seen.

Despite its assertions that its new Goods and Services Tax will be 'revenue neutral' (meaning that taxes will not increase on its account) the Department of Finance's own figures indicate quite clearly that the Government of Canada plans to enjoy increased taxes to spend on its programs in future years. The only change the Government of Canada has in mind is to reduce borrowing while increasing taxation to pay for an ever-expanding government.

The record of the federal government indicates that it neither deserves nor should be granted any new devices to tax the Canadian people. The only acceptable change in the federal tax regime can be summarized in one word, less.

Well, maybe in two words: Much Less.

## **Where Are We in Canada?**

Figure 4 shows Canada's total annual production along with total spending by all levels of government in Canada from 1975 to 1988 as estimated by Statistics Canada.

Fully one half of everything produced in Canada each year is spent by government.

Half of Canada's economy is coordinated in the marketplace. Half of Canada's economy is uncoordinated. What this half will 'produce', what it will cost, who will pay for it, and who will get it, are all decided through politics.

Canadians incur a loss between what they would have been able to do with their own money and what the political system decides will be done.

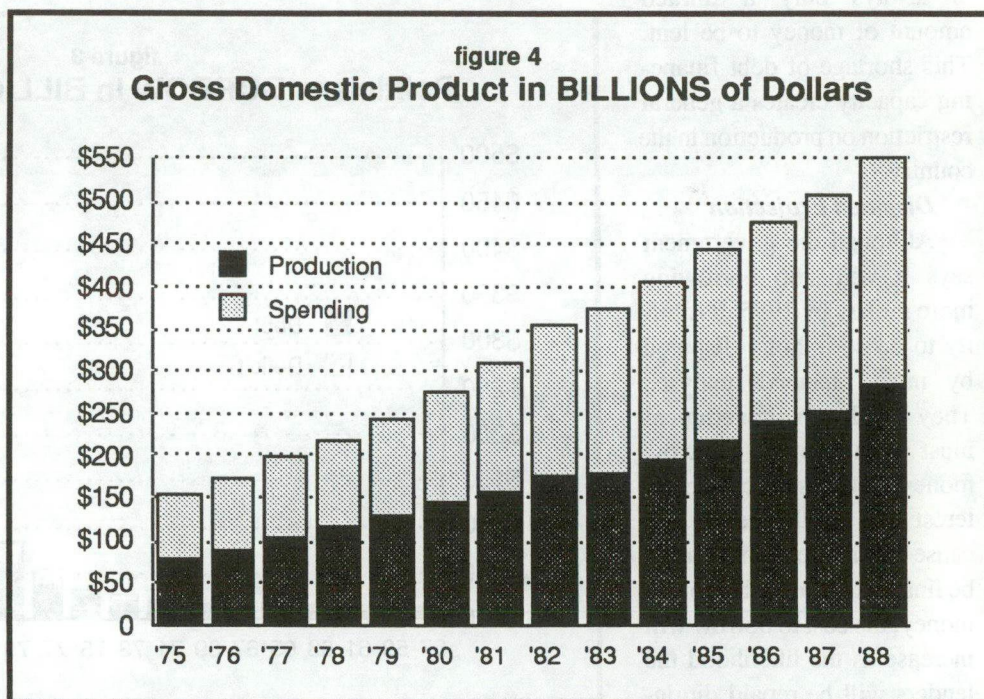
Canadians incur a further loss from additional distortions of the marketplace created by government spending.

If what was produced was left in the hands of the producers, the economy would more than double.

Government spending is a constant 50% of GDP. But, if government has certain limited functions, the performance

of which are vital to the well-being of the country, these would represent a *decreasing* portion of an expanding economy; the cost of these functions would not constantly increase.

The increasing cost of government is the direct result of government spending itself. Every program creates new problems that require more programs and more spending.





Western Development Grants**Government of Canada Grants to Business**

*A small sample of federal grants and non-repayable conditional loans made through various Western Diversification Programs appears below. This is not a complete list. Alberta grants only include some APMA grants but not IRDP or WTID non-repayable grants.*

Potash Institute of Canada .....	\$5,028,000	Seastar Instruments .....	\$75,000
Saskatchewan Wheat Pool .....	\$46,500	Triton Technology .....	\$41,685
Huff & Puff Stitchery .....	\$10,622	Delta Injection Locator .....	\$10,000
Comco Manufacturing .....	\$14,875	ISCA Management Ltd. ....	\$21,000
Truss Systems .....	\$15,423	MBM Computing Inc. ....	\$7,500
Heartwood Industries .....	\$10,007	Piros Light Technologies .....	\$12,500
Del-Air Systems .....	\$34,562	Salmon Farmers Association .....	\$5,000
Geco Steel Inc. ....	\$395,430	Vancouver Pacific National Aquarium .....	\$500,000
International Road Dynamics .....	\$102,141	British Columbia Motion Picture Association .....	\$176,400
Superior Millworks .....	\$25,375	Vancouver-Yokohama Sister City Society .....	\$100,000
Burton Doors & Custom Millwork .....	\$45,150	Pacific Bookworld News Society .....	\$15,000
Tarril Envelopes .....	\$36,925	Canada Pacific Book Fair Society .....	\$20,000
Clorox Company .....	\$25,025	Canadian Environment Industry Association .....	\$50,000
Quill Natural Spring Resources Ltd. ....	\$18,390	A-1 Meat Supplies/Wilfy Investments Ltd. ....	\$30,278
Canadian Lightware Technologies .....	\$37,795	Agnew Chicks (1984) Ltd. ....	\$51,480
Nu-Fab Building Products .....	\$35,917	Alberta Oats Ltd. ....	\$250,000
Everest Technology Ltd. ....	\$652,347	Bassano Growers Ltd. ....	\$147,653
Philom Bios. Inc. ....	\$640,998	Big Rock Brewery .....	\$83,400
Canmar Grain Inc. ....	\$137,000	Canada Packers Inc. ....	\$320,263
Degelman Industries .....	\$22,644	Central Alberta Dairy Pool .....	\$40,000
Develcon Electronics .....	\$4,702,719	Eagle Flight Catering .....	\$59,000
BP Kent Flour Ltd. ....	\$52,500	East-Man Feeds (P.H. Friesen Ltd.) .....	\$112,000
Global Agricultural Technology Exploration .....	\$170,000	European Cheesecake Factory Ltd. ....	\$42,060
Western Canadian Pulse Growers Association .....	\$87,165	Falher Alfalfa Ltd. ....	\$505,723
Northern Lights Big Game Corp. ....	\$465,718	Granpac Inc. ....	\$96,495
Wanushewin Heritage Park .....	\$1,000,000	Beverages Ltd. ....	\$162,500
Ag Tech Processors .....	\$203,966	Hanna Discount Foods .....	\$56,699
TS Metals .....	\$18,375	Hat Alfalfa Producers Ltd. ....	\$286,925
Copeland Seeds .....	\$62,506	Horizon Dairies .....	\$202,224
Fraser Valley Shake and Shingle Association .....	\$9,450,000	Hostess Food Products Ltd. ....	\$22,830
Film and Video .....	\$16,650	Invermere Bakery .....	\$52,000
TEC Industrial Developments Ltd. ....	\$235,786	Legal Alfalfa Products Ltd. ....	\$355,500
Glenayre Electronics Ltd. ....	\$934,696	Lilydale Cooperative Ltd. ....	\$408,197
P Industrial Ltd. ....	\$102,690	NORAC Technologies Inc. ....	\$1,762,950
Novax Industries Corp. ....	\$114,514	Northern Alberta Dairy Pool Ltd. ....	\$49,069
Major Event Management Inc. ....	\$300,000	Otto Pick & Sons Seeds .....	\$115,820
CANSIF .....	\$400,000	Prairie Aromatic Natural Oils .....	\$108,260
International Woodworkers of America (IWA) .....	\$171,000	Pro-Western Plastics Ltd. ....	\$91,200
Abbotsford Airshow .....	\$1,700,000	Snatic Ranch Ltd. ....	\$85,737
		Stawnichy's Holdings Ltd. ....	\$114,807
		UFL Foods Inc. ....	\$262,324
		Welling Alfalfa Cubers Inc. ....	\$91,400
		Wetaskiwin Cooperative Association Ltd. ....	\$149,450
		Wild Rose Seeds Inc. ....	\$169,500
		York Farms Mfg. (Canada Packers Inc.) .....	\$132,000



## Sharing Success

# Student Equality

As a teacher, I speculate with the pupils as to the probable results if I used the equality theory for grading—downgrading the better and upgrading the poorer papers.

First, the highly productive pupils—and they are always a minority in school as well as in life—would soon lose all incentive for producing. Why strive to make a high grade if part of it is taken from you by “authority” and given to someone else? Why work for something if you know you won’t be permitted to keep it?

Second, the less productive pupils—a majority in school as elsewhere—would, for a time, be relieved of the necessity to study or to produce. This “equality” system would continue until the high producers had sunk—or had been driven down—to the level of the low producers. At that point, in order for anyone to survive, the “authority” would have no alternative but to begin a system of compulsory labour and punishments against even the low producers. They, of course, would then complain bitterly, but without understanding.

Finally, I return the discussion to the ideas of freedom and enterprise—the market economy—where each person has freedom of choice, and is responsible for his own decisions and welfare.

- Adapted from the Canora Courier

## Opinion

# Federal Debt

Canadians have been preoccupied with constitutional debates at a time when the federal debt could lead to economic disaster, the chairman of the Bank of Montreal said Tuesday in Vancouver.

The failure to grapple with the country’s \$350 billion debt could reverse “everything we have achieved in this century,” Matthew Barret told the Vancouver Board of Trade.

“We have allowed Canada’s evident prosperity and quality of life to beguile us into a false sense of security.”

- Edmonton Journal, Sept., 1990

## When Pushed Too Far

# Taxpayers in History

The village of Elstow, Sask., has declared itself a “GST-Free Zone” vowing not to collect or pay the unpopular tax when it comes into effect next January. Tax revolts have a long history:

- In 1381, England had its first great popular rebellion, caused by harsh taxes on the poorer classes. Kentish rebels, under Wat Tyler, captured Canterbury, London Bridge and the Tower of London. King Richard II promised concessions on June 14. The next day, when more radical demands were presented, Tyler was wounded in a scuffle. He was later beheaded and the rebellion ended.

- In 1773, Americans dressed as Mohawk Indians dumped £18,000 worth of tea into Boston Harbour. The rebels resented the monopoly given the East India Co. as much as the symbolic effort by Britain to collect taxes to pay for administering the colonies.

- In 1976, Californians approved Proposition 13, a \$17 billion (U.S.) rollback of property taxes in the state. The campaign was later imitated in a dozen other states and at least half succeeded.

- Last year, the Christian Arab village of Beit Sahur, on the West Bank, refused to pay taxes to Israeli authorities. The army cut telephone lines and carried off electronic goods, machinery and cars to pay taxes owing. The village’s taxes come due again this November.

- Globe and Mail, Sept. 24, 1990

# Quotes

*Social Justice should not contradict individual justice, either in theory or in practice ...*

*It's pretty callous to forcibly deprive me of the fruit of my labour for the benefit of some other individual who didn't sweat my sweat. I don't consider that justice.*

- **Walter E. Williams, 1982**

*No man's life, liberty, or property, is safe while the legislature is in session.*

- **Judge Gideon Tucker, 1866**



## Family Expenditures

# Taxes: Your Family's Only Growing Expense

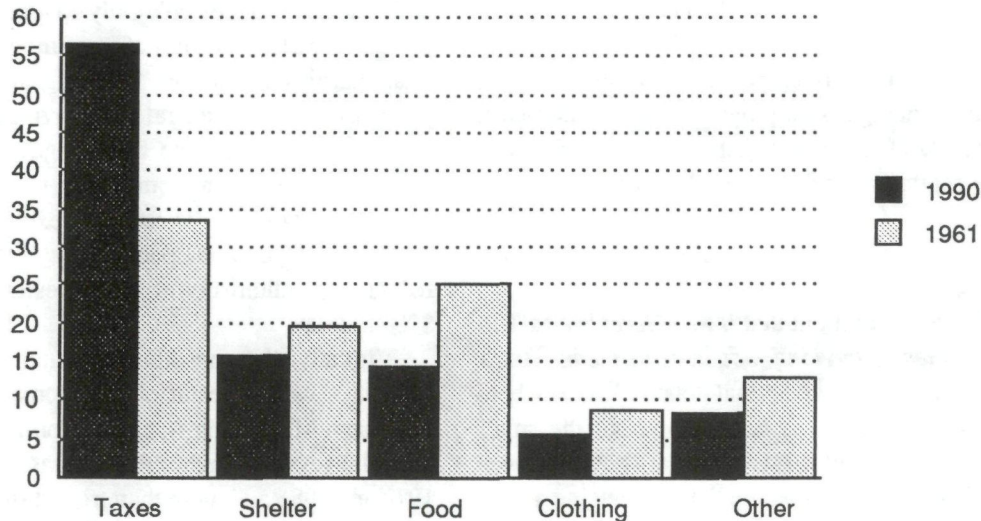
Over the past thirty years, the cost of all family expenses have decreased relative to income. All expenses, that is, except taxes.

Taxes cost the average family almost 23% more today than they did in 1961, according to *Tax Facts Seven*, the annual appraisal of taxation in Canada that is published by Vancouver's Fraser Institute.

While average family incomes have risen 9.9 times, since 1961, shelter has increased only 7.9 times, food has increased only 5.6 times, and clothing has increased only 6.2 times.

Taxes, on the other hand, have increased 16.7 times over the past 30 years. If you thought that the tax grab has been getting bigger, it wasn't your imagination, you were right. The taxes you pay are increasing at an alarming rate.

Percentage of Income Spent by the Average Canadian Family



	1961	1990	Increase
Income: average family cash income	\$5,000	\$49,500	9.9 x
Taxes: average taxes (including deficits)	\$1,675	\$27,894	16.7 x
Shelter: average shelter expenditures	\$977	\$7,766	7.9 x
Food: average food expenditures	\$1,259	\$7,012	5.6 x
Clothing: average clothing expenditures	\$435	\$2,717	6.2 x

	1961	1990	Change
Taxes: percentage of income	33.50%	56.35%	22.9%
Shelter: percentage of income	19.54%	15.69%	-3.9%
Food: percentage of income	25.18%	14.17%	-11.0%
Clothing: percentage of income	8.70%	5.49%	-3.2%

Source: The Fraser Institute; *Tax Facts Seven*, Table 19, page 52



## The Miracle of Government Spending

### Job Creation

A scheme beloved by many politicians to lower our unemployment rate is to call for more public sector initiatives. Typically, they urge that we throw more money at the problem in order to create thousands of new jobs in public works.

But there are flaws in all such solutions. First of all, for every dollar the government spends trying to create employment, it must tax a dollar away from the private sector if it doesn't want to fuel inflation. This destroys employment in the private sector. When we take into account the costly transfer process itself, the net result of this transfer is actually likely to be fewer jobs than before.

Secondly, the kinds of jobs likely to be created will be of the make-work, useless variety, while the ones destroyed are of the productive type upon which the economic health of Canada depends.

Instead of intervening further, government should rescind the laws which encourage unemployment in the first place: minimum wages; U.I.C.; labour legislation; and tariffs. But some people reject this advice. They reply, "If you don't like government spending to create jobs, what are your alternatives? Don't knock our ideas unless you've got better ones to replace them."

One response is to point out that *it was Hercules' task to clean out the stables of the king, not to refill them!* But a more sober reaction is to point out that nobody knows where future jobs will come from, as is evident from the small businesses being created daily. It is in the very nature of such developments that they cannot be predicted. Imagine a government trying to plan for such developments! It's absurd.

- Michael Walker, Lexicon of Economic Thought

### Jets Dropped

**Ottawa** - Seven months after promising to sell two corporate jets, the federal government has quietly changed its mind.

The planned sale was announced with a flourish by Treasury Board President Robert de Cotret last December. The government believed it could save \$12 million, plus annual operating costs of \$4.7 million, by unloading the two jets.

The promised sale was part of a \$1.4 billion program of budget cuts and fee increases.

## Consumer Protection

### Gasoline Politics

There is a delicious irony in seeing federal and provincial politicians pledge to protect Canadian gasoline buyers from unwarranted price increases arising from the Mideast crisis. Where were these same consumer champions during the years when world oil prices fell sharply? They were piling on taxes so heavily that there was no relief at the gas pumps.

In 1985, when crude oil cost \$32 (US) a barrel, motorists paid an average of 51 cents (Canadian) a litre for regular unleaded gasoline. This spring, the price of crude had dropped to \$18 a barrel, but motorists were paying 55 cents a litre. The average Canadian gas price on July 31 was 58.1 cents a litre, according to the Canadian Automobile Association.

When you fill your tank with 58.1 cent-a-litre gasoline, where does the money go? Only 13.4 cents pays for the crude oil; another 21.2 cents pays for refining and marketing costs, retail margins and profits. The biggest share, 23.6 cents (40 per cent), goes into federal and provincial treasuries.

Governments are the biggest gas guzzler of all, using taxes on this essential commodity to pay for programs not related to motorists. The federal excise tax alone takes \$3 billion out of drivers' pockets, says the CAA, but direct federal expenditures on roads are estimated to be less than \$200 million.

Virtually all the gasoline price increases in the last half of the 1980s were a result of tax increases, says the federal Petroleum Monitoring Agency. Combined federal and provincial taxes on regular unleaded gasoline doubled between 1979 and 1985 and more than tripled from 1979 to 1989.

Contrary to popular perception, Canadian oil companies are not especially profitable. During the five years ending in 1989, the petroleum industry's average return on capital was only 4 per cent, compared to 9.7 per cent for manufacturing, 6.7 per cent for mining and 7.3 per cent for other industries. Shareholders are not making a killing.

This dismal record may explain why gasoline prices are already edging up, despite oil companies' inventories of lower-priced fuel. But marketplace competition and a watchful eye by consumers, who know who the true gas price villains are, should curb any excessive increases.

- Globe and Mail, Sept., 1990